CIPFA The Chartered Institute of Public Finance & Accountancy

LAAP BULLETIN 105

Closure of the 2016/17 Accounts and Related Matters

March 2017

The Local Authority Accounting Panel issues LAAP Bulletins to assist practitioners with the application of the requirements of the Code of Practice on Local Authority Accounting, SeRCOP and Prudential Code, and to provide advice on emerging or urgent accounting issues. Bulletins provide influential guidance that is intended to be best practice, but are not prescriptive and do not have the formal status of the Code, SeRCOP or Prudential Code.

Please address any queries to CIPFA Technical Enquiry Service for CIPFA members and students at:

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INTRODUCTION

1. This bulletin covers the closure of accounts and related matters for the 2016/17 year and provides further guidance and clarification to complement the 2016/17 *Code of Practice on Local Authority Accounting in the United Kingdom Guidance Notes for Practitioners* (Code Guidance Notes). It addresses frequently asked questions, and other issues that have arisen since the publication of the Code Guidance Notes.

2. The bulletin focuses on those areas that are expected to be relevant for most authorities. It is not intended to replace authorities' processes for identifying issues, but to complement them.

3. In addition, the bulletin addresses matters that will generally be applicable to authorities across England, Wales, Scotland and Northern Ireland. However, some sections are region specific and are indicated as such. For example, Section E addresses matters that are specifically applicable to Scotland.

4. Section D is included to make local authority practitioners aware of future accounting developments that might have an impact on their authority's current financial planning and narrative reporting.

5. Section F provides information from both HM Treasury and DCLG in relation to the preparation of the WGA returns for authorities in England.

SECTION A – ADDITIONAL GUIDANCE

6. The additional guidance in this section, aims to address any significant issues that may have arisen since the production of the 2016/17 Code Guidance Notes and assist practitioners to effectively produce their 2016/17 financial statements, in accordance with the 2016/17 Code and relevant legislation.

HIGHWAYS NETWORK ASSET – IMPORTANT STATEMENT

7. Following its meeting on 8 March, CIPFA/LASAAC issued an Important Statement on the Measurement of the Highways Network Asset, which can be found at:

   http://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/cipfa-lasaac-local-authority-code-board

Impact on 2016/17 Code Guidance Notes following CIPFA/LASAAC's Decision

8. The new Section P - Highways Network Asset in Module 4 of the 2016/17 Code Guidance Notes, which reflected the requirements of Section 4.11 of the 2016/17 Code, as it had been originally planned to apply for the 2016/17 year, no longer applies. All other consequential changes throughout the Code Guidance Notes, as a result of those original accounting policies, will also no longer apply.

9. Therefore, it must be stressed that any reference in the 2016/17 Code Guidance Notes to the Highways Network Asset does not apply. Highways authorities' accounting policies for the infrastructure class of assets are therefore unchanged from the approach adopted in previous years, ie the infrastructure class of assets

will be defined as it was in the 2015/16 Code and be measured at depreciated historical cost.

10. To further assist Highways Authorities, Annex A at the end of this Bulletin provides a comprehensive list of the amendments required to the paragraphs and tables throughout the 2016/17 Code Guidance Notes to reflect the requirements of the decision taken by CIPFA/LASAAC on 8 March.

11. Highways Authorities should also note that in the 2016/17 Disclosure Checklist, disclosure questions BS 3c); GBS 2c) and NFS 37 to NFS 39 (for England, Scotland and Wales) relating to the 2016/17 reporting requirements for the Highways Network Asset do not apply to local authority financial statements.

UPDATE TO THE 2016/17 CODE

12. The Update to the 2016/17 Code reversed the previous implementation provisions for the new measurement requirements of the Highways Network Asset in the 2016/17 Code following the decision CIPFA/LASAAC took in November 2016. However, the Important Statement issued by CIPFA/LASAAC on 10 March confirmed the latest position on the introduction of the Highways Network Asset Code into the financial reporting requirements for local authorities – please refer to paragraph 7 (and CIPFA/LASAAC's Statement) above.

13. The Update to the 2016/17 Code also includes those changes introduced by statutory provisions after the 2016/17 Code was published ie:

    - the Housing Revenue Account (Accounting Practices) Directions 2016 disclosure requirements for English housing authorities, and
    - the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016

    Practitioners should note, however, that the statutory disclosures for English authorities included in the Housing Revenue Account (Accounting Practices) Directions 2016 and the requirements in the Local Authority Capital Finance and Accounting) Scotland Regulations 2016 for Scottish Authorities were issued in time for inclusion into the 2016/17 Code Guidance Notes.

14. The Update to the 2016/17 Code, which was issued in January 2017, must be read in conjunction with the 2016/17 Code which was published by CIPFA on 1 April 2016. The tracked changes to appropriate extracts of the 2016/17 Code include both new and amended paragraphs to form the Update to the 2016/17 Code.

TELLING THE STORY REVIEW OF THE PRESENTATION OF LOCAL AUTHORITY FINANCIAL STATEMENTS

15. Following the Telling the Story review of the presentation of local authority financial statements, the 2016/17 Code changed the segmental reporting arrangements for the Comprehensive Income and Expenditure Statement and introduced the Expenditure and Funding Analysis.

16. The new Expenditure and Funding Analysis brings together local authority performance reported on the basis of expenditure measured under proper accounting practices with statutorily defined charges to the General Fund and HRA.

17. Both the Comprehensive Income and Expenditure Statement and the Expenditure and Funding Analysis include a segmental analysis which requires local authorities to report performance on the basis of how they are structured and how they operate, monitor and manage financial performance.

18. Therefore, local authorities are no longer required to report the cost of individual services in their Comprehensive Income and Expenditure Statement in accordance with the format specified in Section 3 of SeRCOP and its formal definition of Total Cost in Section 2.

19. The 2016/17 Code also introduces a new streamlined MiRS which:

- presents the Total Comprehensive Income and Expenditure from the Comprehensive Income and Expenditure Statement as one line - on the basis that the columnar analysis of the usable and unusable reserves automatically separates the movements between the Surplus and Deficit on the Provision of Services and Other Comprehensive Income and Expenditure, and
- excludes the transfers between earmarked reserves and the columnar analysis of earmarked reserves as these are not a formal part of financial reporting and are not required by statutory prescription

Although the Movement in Reserves Statement no longer includes transfers to and from earmarked reserves, authorities are reminded that paragraph 3.4.2.57 of the Code still requires disclosure of earmarked reserves[1] where they are material to the local authority.

20. Detailed guidance is provided in Module 3, Sections E to I in the 2016/17 Code Guidance Notes to assist authorities with the changes introduced in the 2016/17 Code for the new formats and reporting requirements for the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the new Expenditure and Funding Analysis. The appendix to Module 3 provides an example Expenditure and Funding Analysis and example notes to support the Expenditure and Funding Analysis. The appendix also includes an example of the new reporting format for the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement.

FAQ - Reporting corporate expenditure in the Comprehensive Income and Expenditure Statement

21. CIPFA has issued a FAQ which provides clarification guidance on the reporting of corporate expenditure in the Comprehensive Income and Expenditure Statement.

The FAQ can be found at:

http://www.cipfa.org/members/members-benefits/technical-enquiry-service/frequently-asked-questions

Expenditure and Funding Analysis - Reconciliation between Management Information (Column I) and the Comprehensive Income and Expenditure Statement’s Surplus or Deficit on the Provision of Services (Column III)

22. Column I of the Expenditure and Funding Analysis requires presentation of income and expenditure that are chargeable under statutory funding provisions including an analysis by segment[2]. As they are a part of the General Fund balance transfers to or from earmarked reserves are not included in the analysis.

[1] For more information on Reserves see LAAP Bulletin 99 (note that LAAP 99 requires updating to reflect the Telling the story review*)*

[2] Consistent with the way the authority reports its performance internally to its management (ie its CODM)

23. Column II of the Expenditure and Funding Analysis represents the amounts for each of the line items in column I for the period that adjust column I to the corresponding line items in the Comprehensive Income and Expenditure Statement (as aggregated by the Code[3]). It was anticipated that these adjustment would primarily be the Adjustments between Accounting Basis and Funding Basis (statutory adjustments). However, the Code does not preclude authorities from including other adjustment items that are not statutory adjustments. Any adjustments included in this column which are not statutory adjustments would need to net to zero.

24. The Expenditure and Funding Analysis was intended to be useful to the lay reader and therefore CIPFA would recommend that the Expenditure and Funding Analysis is presented in the 3 column format specified in the Code (in paragraph 3.4.2.97)

25. Local authority accounts preparers will be aware that the total Adjustments in Column II must net to the Adjustments between Accounting Basis and Funding Basis under Regulations (as relevant to the General Fund and HRA). CIPFA would highlight the following extract from paragraph I45 Module 3 of the Code Guidance Notes in relation to Column II in the Expenditure and Funding Analysis:

"*Local authorities may also wish to consider that some of the same reporting requirements may be included in other reports of statutory charges and reversals. Under the need for clear and concise reporting, local authorities will want to avoid duplication and so cross-referencing may appropriately meet the relevant reporting requirements*."

26. Practitioners are directed to paragraphs I44 to I46 in the 2016/17 Code Guidance Notes for further guidance in this area.

Positioning of the Expenditure and Funding Analysis

27. Paragraph 3.4.2.95 of the 2016/17 Code is clear that '*the Expenditure and Funding Analysis **must** be given due prominence in accordance with the needs of the users of a local authority's financial statements*'. Therefore paragraph I47 of the Code Guidance Notes explains that the Expenditure and Funding Analysis is required by the Code to be positioned in the financial statements where it is most accessible and relevant to an authority's users. The 2016/17 Code is also clear that '*Within the general framework and requirements of the Code, the layout of financial statements and terminology used are at the discretion of authorities'*. CIPFA would reiterate that it is not the intention of the Code to prescribe a rigid pro forma set of accounts or to discourage innovation in the style of accounts presentation (Code Guidance Notes, Module 1, paragraph E2). To illustrate this principle in accordance with the Code's requirements, the example financial statements include the Expenditure and Funding Analysis before the four statements listed at paragraph 3.4.2.17 of the Code.

Comparative Year Re-statement

28. Paragraph 3.4.2.101 of the Code requires full retrospective restatement for the new reporting format for the segmental section of the Comprehensive Income and Expenditure Statement. Authorities are also required to provide a comparative year Expenditure and Funding Analysis and to restate the comparative year Movement in Reserves Statement consistent with the new streamlined presentation. There is, however, no impact on the Balance Sheet information as a result of this change in accounting policy and therefore a third Balance Sheet is not required.

[3] See Code paragraph 3.4.2.97 III

Disclosure of Segmental Information

29. Paragraph 3.4.2.99 provides a list of items which should only be reported on a segmental basis if an authority provides its management[4] with the relevant segmental analysis in accordance with Column I of the Expenditure and Funding Analysis (see paragraph 3.4.2.97). However, although the General Fund would exclude some of the items listed, for example, depreciation, CIPFA is aware that a small number of authorities do report these items on a segmental basis. If this is the case then a local authority should include an appropriate analysis to meet the requirements of paragraph 3.4.2.99.

SECTION B – OTHER ISSUES AFFECTING THE 2016/17 CLOSURE OF ACCOUNTS

ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

30. Paragraph 3.3.2.13 of the 2016/17 Code requires changes in accounting policy to be applied retrospectively unless alternative transitional arrangements are specified in the Code. Paragraph 3.3.4.3 requires an authority to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Code for the relevant financial year. The additional disclosures that will be required in the 2016/17 and 2017/18 financial statements in respect of accounting changes that are introduced in the 2017/18 Code (ie that are relevant to the requirements of paragraph 3.3.4.3) are:

- Amendment to the reporting of pension fund scheme transaction costs
- Amendment to the reporting of investment concentration (see paragraph 6.5.5.1 (m) of the 2017/18 Code)

31. If any of the above amendments (for pension funds) are expected to have a material impact on information in the financial statements, authorities should refer to Appendix C in the 2017/18 Code in relation to their own disclosures regarding the amendments to the above mentioned standards.

USE OF EXAMPLE FINANCIAL STATEMENTS FOR PREPARATION OF THE 2016/17 ACCOUNTS AND EFFECTIVE PRESENTATION OF FINANCIAL INFORMATION

32. Authorities are once again reminded that the Example Financial Statements included in Module 3, Section A in the 2016/17 Code Guidance Notes are provided to illustrate the reporting and disclosure requirements of the 2016/17 Code. They **are not intended as a template for local authority disclosures**. The examples satisfy the minimum reporting and disclosure requirements of the Code and each disclosure is based on the assumption that the transactions, balances or other information are material.

33. The Example Financial Statements reflect the new formats and reporting requirements for the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement and includes a new example Expenditure and

4 See paragraph 3.4.2.92 of the Code.

Funding Analysis as a result of the Telling the Story review of the presentation of local authority financial statements.

34. The 2016/17 Code sets out the disclosure and reporting requirements of local authorities under IFRS. Authorities are reminded that paragraphs 1.5.1, 3.4.2.26 and 3.4.2.27 of the 2016/17 set out the Code's prescriptions on the treatment of material transactions.

35. Authorities may find it useful to refer to Chapter 2 of the Code and Module 2, Section A of the Code Guidance Notes which provide further guidance on the qualitative characteristics of useful financial information in Financial Statements.

36. For further information/reading in this area CIPFA's publication *Financial Statements – A Good Practice Guide for Local Authorities* may assist in identifying improvements in the way the year end accounts are produced. The publication includes guidance on:

- identifying the users (and potential users) of the financial statements, and what information they need
- materiality – the guidance highlights the importance of information that is useful to the users of local authority financial statements.

Further details about this publication can be found at:

http://www.cipfa.org/policy-and-guidance/publications/f/financial-statements-a-good-practice-guide-for-local-authorities-book

OTHER CHANGES TO THE 2016/17 Code

37. The 2016/17 Code also includes the following amendments, (ie in addition to those set out above):

- **Presentation of Financial Statements** (Code Section 3.4), which has been amended to reflect the December 2014 changes to IAS 1 *Presentation of Financial Statements* under the International Accounting Standards Board (IASB) Disclosure Initiative - See Module 3, Sections A and D-G of the 2016/17 Code Guidance Notes.
- **Narrative Reporting** – (Code Section 3.1) reflects the requirements of the Accounts and Audit Regulations 2015 for English authorities in respect of the narrative statement. Further guidance is provided in Module 3, Section B of the 2016/17 Code Guidance Notes.
- **Related Party Disclosures** (Code Section 3.9), which includes an addition to the definition of a related party in relation to key management personnel - See Module 3, Section Q of the 2016/17 Code Guidance Notes.
- **Statements Reporting Reviews of Internal Controls** (Code Section 3.7) in Module 3 (Section O) for the changes to the *Delivering Good Governance in Local Government: Framework* (2016) published by CIPFA and SOLACE - See Module 3, Section O of the 2016/17 Code Guidance Notes
- **Concepts** (Code Section 2.1), to reflect the changes relating to the IPSASB (October 2014) *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, particularly to reflect the description of public sector users and understandability of local authority financial statements - See Module 2, Section A of the 2016/17 Code Guidance Notes

- **Accounting and Reporting by Pension Funds** (Code Section 6.5), to include:
    - An update to the format of the Fund Account and Net Asset Statement
    - Confirmation that the fair value disclosures must be made for retirement benefit plan investments measured at fair value
    - recommendations for a new disclosure on investment management transaction costs

  Further guidance is provided in Module 6, Section F of the 2016/17 Code Guidance Notes

STATUTORY GUIDANCE ON THE FLEXIBLE USE OF CAPITAL RECEIPTS [ENGLAND and WALES]

38. Authorities are reminded about the Directions and Statutory Guidance issued by DCLG and the Welsh Government on the flexible use of capital receipts, which is applicable from 1 April 2016 to 31 March 2019, to provide local authorities with the flexibility to apply receipts from asset sales to finance revenue costs of reform projects, subject to meeting certain requirements.

39. The Directions make it clear that local authorities cannot borrow to finance the revenue costs of service reform and can only use capital receipts from the disposals received in the years in which the flexibility is offered (for qualifying projects). The Directions also confirm that local authorities are not permitted to use their existing stock of capital receipts to finance the revenue costs of reform. Authorities must have regard to the Statutory Guidance when applying the Directions.

40. Further details of the requirements in England can be found in the Statutory Guidance at:

    https://www.gov.uk/government/publications/final-guidance-on-flexible-use-of-capital-receipts

    the Direction can be found at:

    https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/507185/direction_LG_Final.pdf

41. Further details of the requirements for Welsh Local Authorities can be found at:

    http://gov.wales/topics/localgovernment/finandfunding/capitalisation-directions/?lang=en

42. Practitioners may also wish to refer to LAAP Bulletin 104 for a more detailed overview of the requirements.

THE BETTER CARE FUND FOR ENGLISH AUTHORITIES - REMINDER

43. The Better Care Fund (BCF) came into operation on 1 April 2015 for the 2015/16 financial year. To administer the fund, Clinical Commissioning Groups (CCGs) were required to establish joint arrangements with local authorities to operate a pooled budget for the joint delivery of more integrated health and social care.

44. Decisions about the accounting and disclosure requirements for the Better Care Fund will be the same as those taken for any joint working arrangement that an authority participates in.

45. To assist with these decisions, practitioners are directed to the main provisions for accounting for interests in other entities which are included in Chapter 9 of the Code (Group Accounts). Detailed guidance is available in Module 9 of the Code Guidance Notes and more particularly in CIPFA's publication, *Accounting for Collaboration in Local Government* (published in 2014) which provides comprehensive guidance on the accounting for interests in other entities including useful illustrations and examples. Practitioners may wish to refer to Section C of that publication – 'Accounting for Non-Group Collaborative Arrangements'.

46. It is important that all parties to the arrangement have a thorough understanding of the events and transactions relating to the arrangement.

SECTION C – LOOKING FORWARD TO 2017/18 - ACCOUNTING AND LEGISLATIVE CHANGES AFFECTING LOCAL GOVERNMENT IN 2017/18

INTRODUCTION

47. This section provides a brief summary of the **accounting and legislative issues** that will affect local government accounting during the 2017/18 year.

CHANGES INTRODUCED BY THE 2017/18 CODE

GOING CONCERN BASIS OF REPORTING

48. The current provisions in the 2016/17 Code in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, it would not therefore be appropriate for their financial statements to be provided on anything other than a going concern basis.

49. CIPFA/LASAAC has augmented the Code's provisions in Section 3.4 (Presentation of Financial Statements) of the 2017/18 Code to confirm the going concern basis of accounting for local authorities.

50. The Local Authority Accounting Panel (LAAP) agrees with CIPFA/LASAAC's technical position above regarding the going concern basis of accounting. However, both CIPFA/LASAAC and LAAP are aware that there might be a tension between the going concern assumption and the substantial resource issues that some authorities may be experiencing. Therefore, CIPFA/LASAAC has requested that LAAP provides guidance on the issue and particularly on the value of including appropriate reports on financial resilience and sustainability in the Narrative Report.

OTHER CHANGES INTRODUCED BY THE 2017/18 CODE

51. In addition to the clarification in respect of going concern, the 2017/18 Code introduces changes in the following areas:

- Narrative Reporting
- Accounting Policies – Telling the Story of Local Authority Financial Statements
- Accounting and Reporting by Pension Funds – Investment Transaction Costs
- Restructure of chapter one (introduction) of the Code

- Other minor amendments

Practitioners may wish to refer to the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 - Invitation to Comment for further information on the above list of changes, which can be found at:

http://www.cipfa.org/policy-and-guidance/consultations-archive/201718-code-of-practice-on-local-authority-accounting-in-the-united-kingdom-invitation-to-comment

LEGISLATIVE CHANGES AFFECTING LOCAL GOVERNMENT IN 2017/18

FASTER CLOSING [ENGLAND]: TIMETABLE FOR CLOSURE OF ACCOUNTS – FROM 2017/18 YEAR

52. Local authorities in England are reminded that the Accounts and Audit Regulations 2015 bring forward the timetable for the closure of the accounts in respect of the 2017/18 year.

53. Therefore, local authorities will be required to publish their audited statement of accounts by the end of July 2018 (including on the authority's website). Prior to that, as the period for the exercise of public rights must include the first 10 working days of June, the authority must publish the unaudited statement of accounts by the end of May 2018.

THE ITEM 8 CREDIT AND ITEM 8 DEBIT (GENERAL) DETERMINATION - FROM 1 APRIL 2017 FOR ENGLISH AUTHORITIES

54. The transitional arrangements for the treatment of depreciation of housing dwellings in the *Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2012* (Item 8 Determination) will cease on 31 March 2017.

55. Following consultation with local authorities and other interested parties during May–July 2016, a new *Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2017* was issued by DCLG on 24 January 2017. The new Determination is effective for the 2017/18 year and subsequent financial years.

56. The new Item 8 Determination sets out provisions for the treatment of impairment and depreciation in the housing revenue accounts of local authorities in England from 1 April 2017 (ie after the transitional period ends). The new Item 8 Determination:

    - Continues to allow impairment charges and revaluation losses on dwelling assets to be reversed out of the Housing Revenue Account (HRA) post transitional period (ie from 1 April 2017)
    - Permits impairment charges and revaluation losses on non-dwelling assets to be reversed out of the HRA, but only prospectively from 1 April 2017
    - Confirms that from 2017/18 depreciation should be charged to the HRA in accordance with proper practices
    - Permits revaluation gains which reverse a previous impairment and revaluation losses to be adjusted against the HRA Balance

57. Practitioners should note that the transitional adjustment provided for in the

previous Item 8 Determination[5], which permitted the difference between a notional Major Repairs Allowance (MRA) and depreciation for dwellings (where dwellings depreciation is greater than the MRA) to be charged to the Major Repairs Reserve (MRR), will no longer apply.

58. The guidance in Module 4, paragraphs D49-D51 and the illustration in paragraph D52 (ie to remove Journal 2 in the illustration) of the Code Guidance Notes will be amended in the 2017/18 edition to reflect these changes.

CITIES AND LOCAL GOVERNMENT DEVOLUTION ACT 2016

59. The Cities and Local Government Devolution Act 2016 is intended to support delivery of the government's policy to "devolve powers and budgets to boost local growth in England", in particular to devolve powers over economic development, transport and social care to large cities.

60. The Act allows for the implementation of devolution agreements in combined authority areas and with other areas. It is enabling legislation which will allow any public authority function relating to an area to be conferred on a county council or district council, or confer any local government function on a combined authority.

61. Any new combined authority will be able to be accounted for under section 2.5 of the Code (Local Government Reorganisations and Other Combinations). Combined authorities will need to ensure that the newly devolved functions can be accounted for transparently and secure the relevant accountabilities.

62. Although the consultation on the 2017/18 Code set out CIPFA/LASAAC's view that there is no need to specifically amend the Code to introduce new reporting requirements for combined authorities, it may be necessary for CIPFA to produce relevant application guidance for some transactions.

THE ACCOUNT AND AUDIT (WALES) (AMENDMENT) REGULATIONS

63. The Welsh Government has consulted on amendments to the Account and Audit (Wales) Regulations 2014 (the Consultation closed on 6 February 2017). However, the proposed amendments will not be in force before the end of March 2017 and therefore will not apply to the preparation and publication of financial statements for the 2016-17 year.

64. The proposed amendments to the Accounts and Audit Regulations 2014:

- bring forward the timetable for preparing and publishing the statements of accounts of Local Government bodies in Wales
- remove the requirement for pension fund statements to be included in the administering bodies' accounts, and
- remove the requirement to publish public notices relating to the statement of accounts in local newspapers.

65. Authorities in Wales may wish to refer to the full consultation document and the draft Account and Audit (Wales) (Amendment) Regulations 2016 for further details. These can be found at:

https://consultations.gov.wales/consultations/draft-account-and-audit-wales-amendment-regulations-2016

[5] *Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2012*

SECTION D – ISSUES THAT WILL AFFECT FUTURE FINANCIAL REPORTING

66. This section of the Bulletin is intended to make local authority practitioners aware of future events that will affect financial reporting (including new international financial reporting standards) and particularly those that might have an impact on their authority's current financial planning.

NEW ACCOUNTING STANDARDS

IFRS 9 – FINANCIAL INSTRUMENTS

67. IFRS 9 *Financial Instruments* has been issued by the IASB with an effective date of 1 January 2018. The Standard, which supersedes all previous versions and replaces IAS 39 *Financial Instruments: Recognition and Measurement* will be adopted in the 2018/19 Code, subject to confirmation of CIPFA/LASAAC's views.

68. IFRS 9 includes:

- a single classification approach for financial assets driven by cash flow characteristics and how an instrument is managed
- a forward looking 'expected loss' model for impairment rather than the 'incurred loss' model under IAS 39
- new provisions on hedge accounting

69. The classification and measurement of financial liabilities in accordance with IFRS 9 remains largely unchanged from IAS 39 for local authorities.

70. To ensure that local authorities have adequate preparation time for the introduction of this substantial new standard, CIPFA/LASAAC has decided to issue a separate publication alongside the 2017/18 Code to set out how the 2018/19 Code will apply IFRS 9 from 1 April 2018. Note that this separate publication does not have the authority of the Code.

71. Practitioners should also note that council tax, non-domestic rates and district rates are outside of the scope of IFRS 9 (and IFRS 15).

72. To further assist practitioners in the application of CIPFA/LASAAC's agreed position for the introduction of IFRS 9, LAAP anticipates providing early guidance during 2017, also in a separate publication, to support the changes specified by CIPFA/LASAAC in its separate publication.

73. For further detailed commentary on the requirements of IFRS 9 as they will apply to local authorities from 2018/19, practitioners may wish to refer to paragraphs 92 – 157 of the Invitation to Comment (ITC) on the 2017/18 Code.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

74. The IASB issued IFRS 15 *Revenue from Contracts with Customers* in May 2014. IFRS 15 is effective from 1 January 2018. It will therefore be adopted in the 2018/19 Code. IFRS 15 replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts* and their associated interpretations.

75. IFRS 15 provides a comprehensive standard for revenue recognition to address inconsistent practices. The core principle in IFRS 15 is that entities should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects

to be entitled in exchange for those goods or services.

76. As with IFRS 9, to ensure that local authorities have adequate preparation time for the introduction of this new standard, CIPFA/LASAAC has set out how the 2018/19 Code will apply IFRS 15 from 1 April 2018 in the separate publication to accompany the 2017/18 Code.

77. For further detailed commentary on the requirements of IFRS 15 as they will apply to Local Authorities from 2018/19, practitioners may wish to refer to paragraphs 158 – 197 of the ITC on the 2017/18 Code.

IFRS 16 LEASES

78. The IASB issued IFRS 16 *Leases* in January 2016. The standard has an effective date of 1 January 2019 which means that it is anticipated to apply to local authorities in the 2019/20 financial year.

79. IFRS 16 establishes a new accounting model for lessees in which all leases result in an entity (the lessee) obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. The standard eliminates the classification of leases as either operating leases or finance leases as required by IAS 17 *Leases* and, instead, introduces a single lessee accounting model. IFRS 16 requires lessees to recognise:

- assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- depreciation of lease assets reported separately from interest on lease liabilities.

80. This means that all leases for substantial assets with a term of more than 12 months will be accounted for by recognising a 'right-of-use' asset on the Balance Sheet, together with a lease liability initially measured at the present value of the unavoidable lease payments. In overall terms, this means that leases currently accounted for as operating leases would be treated similarly to finance leases (but recognising only a proportion of the asset's overall value).

81. When the Code adopts the new standard[6], it is likely that authorities that are lessees will need to invest time in converting operating leases to the new accounting basis. More importantly from a financial management perspective, the asset recognition requirements are likely to bring all new qualifying leases within the scope of the prudential framework as capital expenditure.

82. The accounting treatment for lessors has not substantially changed.

83. Authorities proposing to become lessees in the medium term are recommended to familiarise themselves with IFRS 16. Practitioners may wish to refer to the IASB's *Project Summary and Feedback Statement* on IFRS 16 which is available on the IASB website at:

http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/Documents/IFRS_16_project-summary.pdf

CHANGES IN LEGISLATION

NON-DOMESTIC RATES, 100 PER CENT RETENTION ENGLAND

[6] Subject to CIPFA/LASAAC's decisions on the adoption of the Standard in the Code.

84. The Local Government Finance Bill 2016/17 was issued in January 2017. This Bill proposes to repeal the current 50 per cent system ie as included in Schedule 7B to the Local Government Finance Act 1988.

85. Changes to the Code are likely to be needed on implementation of the new scheme.

86. A further consultation was published on 15 February seeking views on many of the important aspects of the new system. Responses to that consultation are invited by 3 May 2017. The Secretary of State for Communities and Local Government in his speech on the local government finance settlement noted that the Government has confirmed that it is interested in building on the existing pilot scheme and will be inviting all councils to apply to participate in piloting aspects of 100% business rates retention from April 2018.

87. Pilot schemes under the proposals are also anticipated to take place from 1 April 2017.

88. It is also anticipated that the return date for NNDR 3 form (which collects statistical outturn information for business rates) will be moved to an earlier date to align with the early closure timetable under the Accounts and Audit Regulations 2015. DCLG have undertaken a 'Dry Run' submission of the NNDR 3 for the 2016/17 year and have set a deadline of 28 April (ie according to their latest submission schedules).

THE HOUSING AND PLANNING ACT 2016

89. The Housing and Planning Act contains a number of housing reforms, including a requirement for local housing authorities to pay the Secretary of State a sum in line with the anticipated receipt from the sale of high value council housing. Councils will be able to retain some of the sale funds to support new house building locally to increase the overall housing numbers in their area. The legislation allows for the payment to be calculated using a formula, providing local authorities with flexibility to choose to retain an individual high value property, while making the payment from other sources.

90. The mechanism for making the payment is anticipated to be very similar to the payments made by local authorities to the Housing Capital Receipts Pool and therefore it is likely that the payments would be recognised in Other Operating Expenditure of the Comprehensive Income and Expenditure Statement.

91. A white paper was published in February 2017 and provides further details on the requirements. The white paper can be found at:

https://www.gov.uk/government/publications/fixing-our-broken-housing-market

CIPFA CONSULTATIONS

TREASURY MANAGEMENT AND PRUDENTIAL CODE CONSULTATIONS

92. The landscape for local government has changed significantly following the sustained period of reduced public spending and the developing localism agenda. Therefore, the Treasury Management Panel consider that it is timely to review the Treasury Management and Prudential Codes and seek views on areas where they can be strengthened or amended to ensure that they remain fit for purpose.

93. Responses to the initial consultations are sought by 21 April. There will be a further

consultation on proposed amendments over the summer with implementation scheduled for 2018/19.

SECTION E – ISSUES AFFECTING THE 2016/17 CLOSURE OF ACCOUNTS FOR AUTHORITIES IN SCOTLAND

THE LOCAL AUTHORITY (CAPITAL FINANCE AND ACCOUNTING) (SCOTLAND) REGULATIONS 2016 [SCOTLAND]

94. Scottish local authorities should note that The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 (SSI 2016/123) have been made. This will in future affect:

- the borrowing of money by the local authority
- the purposes for which borrowing can be incurred
- the statutory charges to the General Fund/HRA for such borrowing
- the statutory purpose of the Loans Fund,
- the prudential financial management of the Loans Fund, and
- the governance of borrowing by an authority.

95. In preparing their annual accounts, authorities should particularly note the requirement to cross refer in the Management Commentary to information that has to be disclosed in council reports regarding the authority's "capital investment plans, treasury management (borrowing and investments), prudential indicators and the loans fund liabilities" (see Part 2 paragraph 69 of Finance Circular 7/2016)

96. As mentioned above, these new regulations were not issued in time for inclusion in the 2016/17 Code. However, the Update to the 2016/17 Code includes the changes introduced by statutory provisions after the 2016/17 Code was published.

97. Practitioners should note that the requirements in the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 for Scottish Authorities were issued in time for inclusion into the 2016/17 Code Guidance Notes.

INTEGRATION JOINT BOARDS [SCOTLAND]

98. LASAAC is currently updating the existing guidance (Additional Guidance On Accounting For The Integration Of Health And Social Care 2015/16) to:

- provide further clarification in some areas
- reflect queries arising from the first year of implementation
- address some areas of relatively minor differences with IRAG (Integrated Resources Advisory Group) Guidance
- address some of the implications arising from the implementation of the Expenditure and Funding Analysis and related changes in the Code of Practice 2016/17

99. Additionally CIPFA has agreed to develop a template example set of Integration Joint Boards (IJBs) annual accounts for 2016/17, combined with additional support and guidance for IJBs.

RECOGNITION OF CAPITAL GRANTS AND CONTRIBUTIONS RECEIVED – [REMINDER FOR SCOTTISH AUTHORITIES]

100. Following a review in Scotland involving the reconciliation of Local Financial Returns to the annual accounts, some inconsistency of practice has been identified

regarding the appropriate recognition point in the Comprehensive Income and Expenditure Statement for capital grants and contributions received.

101. Authorities are reminded that paragraph 3.4.2.38 (e) in the 2016/17 Code expects the line 'Taxation and Non-Specific Grant Income' to include '…all capital grants and contributions'. Therefore, Capital grants and contributions which are applied to fund capital expenditure should not be included in service expenditure lines.

102. Any grants receivable by an authority from the Scottish Government (or other donor) or that are applied to 'revenue expenditure funded from capital under statute' will be accounted for as revenue grants by the authority, even if described as capital grants by the giver of the grant. See the Code Guidance Notes Module 4 Section J, in particular paragraph J4.

SECTION F – WHOLE OF GOVERNMENT ACCOUNTS RETURNS

Whole of Government Accounts RETURNS FOR 2016/17 [ENGLAND ONLY]

103. The following information in relation to the preparation of the Whole of Government (WGA) returns for authorities in England has been provided to the LAAP by HM Treasury, for information.

104. The 2015-16 WGA is expected to be published around the end of April 2017.

105. The WGA team will in due course circulate a newsletter to advise users of the 2016-17 timetable (as they have done in previous years).

106. Non-macro Data Collection Tool (DCT) pro-formas for English local government for 2016/17 will be uploaded onto the Gov.uk website in mid-April. Please note that this is not the actual DCT that you will be required to submit. Instead these are unlocked, macro-free blank templates highlighting any revisions to data capture requirements. Practitioners will be able to begin work using these templates. Unlike the final DCT, there are no protections on these worksheets. This will give authorities greater freedom to incorporate the DCT (or sections of it) into accounts closure working papers.

107. Authorities will have to submit a completed DCT using the macro-enabled spreadsheet that has been through the locking process. This will be uploaded onto the Gov.uk website in mid to late April 2017, along with updated guidance and the other necessary forms.

108. HM Treasury will ensure that training is available for officers involved in the WGA process. Training (prepared in conjunction with CIPFA) will take the form of a training video released in early May and thereafter available to watch on demand, and a follow up webinar in early June.

109. There is a local government WGA user group: practitioners wishing to be involved with this should contact:

wga.team@hmtreasury.gsi.gov.uk

Annex A

Schedule of amendments to the 2016/17 guidance notes to reflect the requirements of the taken by CIPFA/LASAAC decision on 8 March

The 2016/17 Code Guidance Notes were drafted on the basis that the Highways Network Asset would be measured at depreciated replacement cost from the 2016/17 year. However, following CIPFA/LASAAC's final decision in respect of the Highways Network Asset on 8 March 2017, any reference to the Highways Network Asset **will not apply**. Local authorities' accounting policies in the 2016/17 year for the infrastructure class of assets from the approach adopted in previous years are unchanged, ie the infrastructure class of assets will be defined as it was in the 2015/16 Code and be measured at depreciated historical cost.

To assist authorities, the following schedule identifies the paragraphs and tables in the 2016/17 Code Guidance Notes that are impacted by CIPFA/LASAAC's decision on 8 March 2017 and reinstates the guidance as originally drafted and the amendments required to reflect CIPFA/LASAAC's final decision for the preparation of the 2016/17 financial statements.

Where amendments are required to **tables** in the Guidance Notes, the list refers practitioners to an extract from the relevant section of the table showing amendments required to the existing guidance (in tracked changes) to reflect the revised position for the accounting for the Highways Network Asset (these are included in Notes 1 - 5 below).

A number of diagrams in the Code Guidance Notes have also been amended to remove references to the Highways Network Asset. The amended diagrams are included in Appendices A - C.

Schedule of tracked changes or amendments:

ROW NO.	PAGE	PARAGRAPH NO.	TRACKED CHANGES OR AMENDMENTS TO PARAGRAPHS TABLES	AMENDED PARAGRAPHS AND TABLES IN THE 2016/17 CODE GUIDANCE NOTES
Schedule of Changes				
1	iv	ix)	**The Example Financial Statements** in the Appendix to Module 3 have been updated to reflect the Code's reporting and disclosure requirements, including the new formats and reporting requirements for the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement, the new Expenditure and Funding Analysis and the new Income Analysed by Nature note. ~~The Example Financial Statements also include the new reporting requirements for the move to measuring the Highways Network Asset at DRC (ie the new accounting policies and the movements on the Highways Network Asset note)~~	**The Example Financial Statements** in the Appendix to Module 3 have been updated to reflect the Code's reporting and disclosure requirements, including the new formats and reporting requirements for the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement, the new Expenditure and Funding Analysis and the new Income Analysed by Nature note.
2	iv	xii)	**Module 4 – Non Current Assets** – is updated: ▪ ~~In Sections A to E, to reflect the 2016/17 Code's changes to definitions, measurement and disclosure provisions (in Section 4.1 – Property, Plant and Equipment) resulting from the introduction of the new measurement requirements for the Highways Network Asset in Section 4.11 of the Code (*see Section 2 below*)~~ ▪ In Section B (Recognition): to provide further clarification on the recognition requirements for property, plant and equipment ▪ In Section C (Measurement after Recognition): to clarify the treatment of accumulated depreciation and impairment for items of property, plant and equipment ~~(that are not a part of the Highways Network Asset – *see Section 2 below*)~~	**Module 4 – Non Current Assets** – is updated: ▪ In Section B (Recognition): to provide further clarification on the recognition requirements for property, plant and equipment ▪ In Section C (Measurement after Recognition): to clarify the treatment of accumulated depreciation and impairment for items of property, plant and equipment

ROW NO.	PAGE	PARAGRAPH NO.	TRACKED CHANGES OR AMENDMENTS TO PARAGRAPHS TABLES	AMENDED PARAGRAPHS AND TABLES IN THE 2016/17 CODE GUIDANCE NOTES
Module 1 - Appendix B – Note 1 - New or amended standards introduced to the 2016/17 Code				
3	29	6th Row in table -IAS 16 *Property, Plant and Equipment*	References to Highways Network Asset does not apply.	The Highways Network Asset continues to be measured at Depreciated Historical Cost (as part of the Infrastructure class of assets) [See extract from the table at **Note 1** below for track changes to 2016/17 Guidance Notes]
Module 2 – Concepts and Principles				
4	52	Table at Paragraph A119 – Row referring to the **Highways Network Asset**: **Footnote:**	~~For 2016/17 the Highways Network Asset is carried at current value ie depreciated replacement cost in accordance with the methodologies prescribed by the *Code of Practice on the Highways Network Asset*.~~ ~~The 2016/17 Code refers to the *Code of Practice on Transport Infrastructure Assets* in the table in paragraph 2.1.2.35. However, the *Code of Practice on Transport Infrastructure Assets*, which was issued by CIPFA in 2013, was updated in 2016 and renamed the *Code of Practice on the Highways Network Asset*.~~ [See also the extract from the table at **Note 2** below for track changes to the table at paragraph A119]	[See extract from the table at **Note 2** below for track changes to the table at paragraph A119]
5	52	Paragraph A120	~~Paragraph 2.1.2.34 of the Code confirms that the Highways Network Asset is required to be measured at current value. The 2016/17 edition of the Code adopts the measurement~~	

ROW NO.	PAGE	PARAGRAPH NO.	TRACKED CHANGES OR AMENDMENTS TO PARAGRAPHS TABLES	AMENDED PARAGRAPHS AND TABLES IN THE 2016/17 CODE GUIDANCE NOTES
			~~requirements of the CIPFA *Code of Practice on the Highways Network Asset* (2016) ie measurement on a depreciated replacement cost basis. Authorities should refer to section P in Module 4 of these guidance notes for further guidance in this area.~~	
Module 3 – The Financial Statements				
6	221	3rd Row Table at Paragraph G8 – Highways Network Asset	Row 6 in the table does not apply	The Highways Network Asset remains a part of the Infrastructure class of assets [See extract from the table at **Note 3** below for track changes to 2016/17 Guidance Notes]
Module 3 – Section A: Example Financial Statements and Notes to the Accounts for Local Authorities 2016/17				
7	357	Example Balance Sheet	The line 'Highways Network Asset' does not apply	The Highways Network Asset remains a part of the Infrastructure class of assets
8	380-384	Note 1: Accounting Policies	Accounting Policy **xxii** for the 'Highways Network Asset' does not apply	The Highways Network Asset remains a part of the Infrastructure class of assets
9	390	Note 4: Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty	Reference to the 'Highways Network Asset' does not apply	The Highways Network Asset remains a part of the Infrastructure class of assets [See extract from the table at **Note 4** below for track changes to 2016/17 Guidance Notes]
10	410	Note 16 – Highways Network Asset	The new 'Highways Network Asset' note does not apply	The Highways Network Asset remains a part of the Infrastructure class of assets

ROW NO.	PAGE	PARAGRAPH NO.	TRACKED CHANGES OR AMENDMENTS TO PARAGRAPHS TABLES	AMENDED PARAGRAPHS AND TABLES IN THE 2016/17 CODE GUIDANCE NOTES
11	455	Footnote 150 at Note 43 - Capital Expenditure and Capital Financing	Required by paragraph 4.1.4.3 5) of the Code. A simpler version of the note would omit the opening and closing position on the Capital Financing Requirement and balance the statement by showing the amounts of capital expenditure met from borrowing or in the form of creditors. The Capital Financing Requirement would then need to be disclosed separately. ~~[Note that this disclosure may be combined with the same disclosure for the Highways Network Asset.]~~	Required by paragraph 4.1.4.3 5) of the Code. A simpler version of the note would omit the opening and closing position on the Capital Financing Requirement and balance the statement by showing the amounts of capital expenditure met from borrowing or in the form of creditors. The Capital Financing Requirement would then need to be disclosed separately.
Module 3 – Section B: Alternative Example Financial Statements and Notes to the Accounts for Local Authorities 2016/17				
12	490	Example Alternative Balance Sheet	The line 'Highways Network Asset' does not apply	The Highways Network Asset remains a part of the Infrastructure class of assets
Module 4 – Non-Current Assets				
13	508	Table at Paragraph A2 – **Balance Sheet** section – Footnote at 'Infrastructure'	~~'For 2016/17 infrastructure assets no longer include the Highways Network Asset.'~~	[See extract from the table at **Note 5** below for track changes to the table]
14	509	Table at Paragraph A2 – **Balance Sheet** section	~~the Highways Network Asset – depreciated replacement cost (see section P)~~	[See extract from the table at **Note 5** below for track changes to the table]
15	511	Diagram at Paragraph A3 - **Key Principles of Accounting for Non-current Assets** –Balance Sheet	References to the measurement etc. of the Highways Network Asset do not apply.	The Highways Network Asset remains a part of the Infrastructure class of assets and is measured at Depreciated Historical Cost. [See **Appendix A** below for tracked amendments to the diagram]
16	514	Diagram at Paragraph	References to the Highways Network Asset do not apply.	The Highways Network Asset remains a part of the

ROW NO.	PAGE	PARAGRAPH NO.	TRACKED CHANGES OR AMENDMENTS TO PARAGRAPHS TABLES	AMENDED PARAGRAPHS AND TABLES IN THE 2016/17 CODE GUIDANCE NOTES
		A5 - **Capital Accounting and Capital Financing Overview**		Infrastructure class of assets and is measured at Depreciated Historical Cost. [See **Appendix B** below for tracked amendments to the diagram]
17	539	Paragraph C1 –4th Bullet	- infrastructure assets ~~(for 2016/17 excluding the Highways Network Asset – see section P)~~	- infrastructure assets
18	539	Paragraph C2	Paragraph 4.1.2.30 of the Code requires infrastructure ~~(for 2016/17 this excludes the Highways Network Asset – see section P)~~ and assets under construction to be measured at historical cost. Paragraph 4.1.2.30 of the Code also states that an authority may measure community assets at either valuation (in accordance with section 4.10 of the Code – see also **section O** of this module) or at historical cost. All other classes of property, plant or equipment are to be carried at current value (as defined by the Code – see paragraphs A6–A9 above). The detailed bases for measuring classes of property, plant and equipment, as prescribed by the Code, are set out in the table at paragraph C11 below.	Paragraph 4.1.2.30 of the Code requires infrastructure and assets under construction to be measured at historical cost. Paragraph 4.1.2.30 of the Code also states that an authority may measure community assets at either valuation (in accordance with section 4.10 of the Code – see also **section O** of this module) or at historical cost. All other classes of property, plant or equipment are to be carried at current value (as defined by the Code – see paragraphs A6–A9 above). The detailed bases for measuring classes of property, plant and equipment, as prescribed by the Code, are set out in the table at paragraph C11 below.
19	539	Footnote 3	~~For 2016/17 infrastructure assets no longer include the Highways Network Asset.~~	
20	540	Paragraph C8	An asset that would qualify overall as a community asset might have elements that would fall into another class of assets. For instance, public parks may feature pathways, bridges, playgrounds and sports facilities. Where material, these would need to be classified separately as buildings, plant ~~and~~ or infrastructure ~~or considered for the possibility that they might be a part of the Highways Network Asset~~.	An asset that would qualify overall as a community asset might have elements that would fall into another class of assets. For instance, public parks may feature pathways, bridges, playgrounds and sports facilities. Where material, these would need to be classified separately as buildings, plant or infrastructure
21	541	Table at Paragraph C11-	Infrastructure ~~(except for 2016/17 the Highways Network~~	Infrastructure

ROW NO.	PAGE	PARAGRAPH NO.	TRACKED CHANGES OR AMENDMENTS TO PARAGRAPHS AND TABLES	AMENDED PARAGRAPHS AND TABLES IN THE 2016/17 CODE GUIDANCE NOTES
		1st Row	~~Asset – see section P)~~ Assets Under Construction	Assets Under Construction
22	542	Diagram - Capital Accounting and Capital Financing Overview	References to the Highways Network Asset do not apply.	The Highways Network Asset remains a part of the Infrastructure class of assets and is measured at Depreciated Historical Cost. [See **Appendix B** below for tracked amendments to the diagram]
23	545	Paragraph C24	The cost model is used for the measurement of infrastructure ~~(except for the Highways Network Asset)~~, community assets (where authorities apply the cost model) and those items of property, plant and equipment that are carried at depreciated historical cost as a proxy for current value. The model is also used to maintain a depreciated historical cost amount for assets carried at current value, in order to calculate the adjustment to revaluation gains for the difference between historical cost and current value depreciation, ie the amount of depreciation applicable to the revaluation gain.	The cost model is used for the measurement of infrastructure, community assets (where authorities apply the cost model) and those items of property, plant and equipment that are carried at depreciated historical cost as a proxy for current value. The model is also used to maintain a depreciated historical cost amount for assets carried at current value, in order to calculate the adjustment to revaluation gains for the difference between historical cost and current value depreciation, ie the amount of depreciation applicable to the revaluation gain.
24	553	Paragraph C59	Paragraph 35 of IAS 16 does, though, permit accumulated depreciation at the date of the revaluation to be adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses. However, from 2016/17 the Code prohibits this approach for non-current assets measured under section 4.1 of the Code and states in paragraph 4.1.2.33 of the Code that the option in IAS 16 for the treatment of accumulated depreciation and impairment, where the gross carrying amount is adjusted in a manner	Paragraph 35 of IAS 16 does, though, permit accumulated depreciation at the date of the revaluation to be adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses. However, from 2016/17 the Code prohibits this approach for non-current assets measured under section 4.1 of the Code and states in paragraph 4.1.2.33 of the Code that the option in IAS 16 for the treatment of accumulated depreciation and impairment, where the gross carrying

ROW NO.	PAGE	PARAGRAPH NO.	TRACKED CHANGES OR AMENDMENTS TO PARAGRAPHS TABLES	AMENDED PARAGRAPHS AND TABLES IN THE 2016/17 CODE GUIDANCE NOTES
			that is consistent with the revaluation of the carrying amount of the asset, is withdrawn. This means that any accumulated depreciation and impairment at the date of valuation must be eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. This is unlikely to be a change in accounting policy as the normal process for local authorities is to use the elimination approach as described in paragraph C58 above. ~~Authorities should however note that there is a separate treatment for accumulated depreciation and impairment for the Highways Network Asset – see section 4.11 of the Code and paragraph P82 in this Module.~~	amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset, is withdrawn. This means that any accumulated depreciation and impairment at the date of valuation must be eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. This is unlikely to be a change in accounting policy as the normal process for local authorities is to use the elimination approach as described in paragraph C58 above.
25	565	Paragraph D8 – 3rd Bullet	~~-components of the Highways Network Asset that have an indefinite life in accordance with the *Code of Practice on the Highways Network Asset*~~	
26	565	Footnote 11	~~This is referred to as 'The Code of Practice on Transport Infrastructure Assets' in the 2016/17 Code. However, the title of the *Code of Practice on Transport Infrastructure Assets* (which was issued by CIPFA in 2013) was updated in 2016 and renamed the *Code of Practice on the Highways Network Asset*.~~	
27	571	Paragraph D29 – 4th Bullet	It is technically possible for residual value to increase to be greater than the remaining depreciable amount. In these circumstances, paragraph 4.1.2.42 of the Code allows depreciation to be suspended. This situation is not very likely to arise as the assets carried by an authority at historical cost will either have no residual value (community assets (where the cost model is applied) and infrastructure ~~(note that this reference does not include the Highways Network Asset which is no longer within its scope)~~) or would require	It is technically possible for residual value to increase to be greater than the remaining depreciable amount. In these circumstances, paragraph 4.1.2.42 of the Code allows depreciation to be suspended. This situation is not very likely to arise as the assets carried by an authority at historical cost will either have no residual value (community assets (where the cost model is applied) and infrastructure) or would require to be revalued to current value (plant and equipment – as the higher residual value

ROW NO.	PAGE	PARAGRAPH NO.	TRACKED CHANGES OR AMENDMENTS TO PARAGRAPHS TABLES	AMENDED PARAGRAPHS AND TABLES IN THE 2016/17 CODE GUIDANCE NOTES
			to be revalued to current value (plant and equipment – as the higher residual value would be evidence that depreciated historical cost was no longer an effective proxy for current value).	would be evidence that depreciated historical cost was no longer an effective proxy for current value).
28	726 - 778	Section P - Highways Network Asset	The entire Section P in Module 4 - Highways Network Asset does not apply	The entire Section P in Module 4 - Highways Network Asset does not apply
Module 6 – Employee Benefits - Annex to Section F (and SECTION 6.5 OF THE CODE)				
29	873	Table: 5th row on page 873	Section 4.11 of the Code and Section P in Module 4 - Highways Network Asset does not apply	Section 4.11 of the Code and Section P in Module 4 - Highways Network Asset does not apply

Extracts from tables in the Guidance Notes which include tracked changes to reflect the amendments required in relation to the Highways Network Asset

Note 1 [from Appendix B in Module 1]

Extract from Note 1: Details of the Annual Improvements to IFRSs 2010–2012 Cycle

Amended Standard	Title	Description of Change and Comments	Code Amendment
IAS 16 *Property, Plant and Equipment*	Revaluation method – proportionate restatement of accumulated depreciation	Applicable to local authorities. This amendment to IAS 16 clarifies the treatment, as it is the IASB's view that the restatement of the accumulated depreciation is not always proportionate to the change in the gross carrying amount. The amendment sets out that the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount. Paragraph 4.1.2.33 of the Code adapts IAS 16 and requires that any accumulated depreciation and impairment at the date of valuation must be eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.	Paragraph 4.1.2.33 and Module 4, paragraph~~s~~ C59 ~~and P82~~

Amended Standard	Title	Description of Change and Comments	Code Amendment
		~~However, paragraph 4.11.2.11 of the Code requires a different treatment for the Highways Network Asset and stipulates that when the Highways Network Asset is revalued, any accumulated depreciation and impairment at the date of valuation shall follow the option in IAS 16 where the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. This means that the accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses.~~	

Note 2 [from Paragraph A119 in Module 2]

Extract from Measurement at Fair Value or the Different Current Value Measurements of Property, Plant and Equipment

Circumstance	Fair Value or Current Value Measurement of Property, Plant and Equipment
~~**Highways Network Asset**~~	~~For 2016/17 the Highways Network Asset is carried at current value ie depreciated replacement cost in accordance with the methodologies prescribed by the *Code of Practice on the Highways Network Asset*[1].~~

Note 3 [from Paragraph G8 in Module 3]

Extract from Contents of the Balance Sheet

~~c)~~	~~Highways Network Asset (for 2016/17)~~	~~This is a separate class asset comprising a network and grouping of interconnected, inalienable components, expenditure on which is only recoverable by continued use of the asset created, ie there is no prospect of sale or alternative use.~~ ~~The recognition, measurement and derecognition principles for the Highways Network Asset follow the requirements for the property, plant and equipment class of assets in section 4.1 of the Code subject to the specific provisions in section 4.11.~~

~~[1] The 2016/17 Code refers to the *Code of Practice on Transport Infrastructure Assets* in the table in paragraph 2.1.2.35. However, the *Code of Practice on Transport Infrastructure Assets*, which was issued by CIPFA in 2013, was updated in 2016 and renamed the *Code of Practice on the Highways Network Asset*~~

	~~The accounting implications of the Highways Network Asset are covered by section P of Module 4 of these Guidance Notes.~~ ~~Note that the 2016/17 Code confirms that restatement of preceding year information is not required for the introduction of the new measurement requirements for the Highways Network Asset.~~

Note 4 [from the Appendix in Module 3 - Section A: *Example Financial Statements and Notes to the Accounts for Local Authorities 2016/17*]

Extract from Note 4: Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
~~**Highways Network Asset**~~	~~To estimate accumulated and annual depreciation of the carriageways component of the Highways Network Asset, the authority used local rates for surface replacement over the last 12 months.~~ ~~Other major sources of estimation uncertainty (*based on the authority's local circumstances*):~~ ~~Estimation uncertainty A~~ ~~Estimation uncertainty B~~	~~If the rates for surface replacement increase or decrease by x% against the local rate used by the end of 20X2 year, the accumulated and annual depreciation for the carriageways component of the Highways Network Asset will be £x/£x and £y/£y higher or lower respectively.~~ ~~Describe the effect if actual results differ from assumptions for estimation uncertainty A.~~ ~~Describe the effect if actual results differ~~

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
		~~from assumptions for estimation uncertainty B.~~

Note 5 [from Paragraph A2 in Module 4]

Extract from Key Principles of Accounting for Non-current Assets

Balance Sheet
All expenditure that can be directly attributed to the acquisition of, creation of or subsequent expenditure on (see the flow chart at paragraph B53 for an overview of what should be considered in establishing what expenditure will meet the definition of subsequent expenditure) items of property, plant and equipment or the acquisition of rights over certain longer-term intangible benefits is accounted for on an accruals basis and capitalised as a non-current asset. Rights to control property, plant or equipment acquired under finance leases, service concession (PFI/PPP) arrangements and items donated to an authority are initially recognised on the Balance Sheet at their fair value. Subsequent measurement at current value will follow the appropriate class of property, plant and equipment. Non-current assets are carried in the Balance Sheet as follows: operational property, plant and equipment assets are carried at their current value to the authority in their existing use (see further discussion in paragraphs A6–A9 below) non-operational property, plant and equipment – surplus assets are carried at fair value investment properties (held primarily to generate rental income or for capital appreciation) are carried at fair value and following the specifications in IFRS 13 at highest and best use heritage assets – held at valuation rather than at current or fair value (in accordance with the requirements of section 4.10 of

the Code) and under certain conditions historical cost (depreciated where appropriate)

- infrastructure[2] – depreciated historical cost
- community assets – depreciated historical cost or valuation rather than current or fair value in accordance with the requirements of section 4.10 of the Code (see section O)
- assets held for sale – measured at the lower of their carrying amount and fair value less costs to sell. These non-current assets are taken outside the scope of capital accounting pending sale although they remain subject to capital financing arrangements under the Prudential Framework

~~the Highways Network Asset – depreciated replacement cost (see section P).~~

Intangible assets (notably software) are recognised on the Balance Sheet at their cost of acquisition or development but only revalued to fair value in restricted circumstances.

Where non-current assets are carried at current and fair value, formal revaluations[2] are required at least every five years (although more frequent valuations may be required for investment properties). It should be noted, however, that IAS 16 requires revaluations to be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Three reserves are maintained in the Balance Sheet to manage the impact of accounting for non-current assets:

- the Revaluation Reserve – records gains arising from the revaluation of non-current assets until they are consumed by the authority or realised in a sale
- the Capital Adjustment Account – absorbs the difference arising from the different rates at which non-current assets are accounted for as being consumed and at which resources are set aside to finance their acquisition
- the Capital Receipts Reserve – holds the receipts generated from the disposal of non-current assets, which are restricted to being applied to finance new capital investment or to reduce indebtedness.

~~[2] For 2016/17 infrastructure assets no longer include the Highways Network Asset.~~

Appendix A

A3 The accounting impact of these principles is summarised in the following two charts.

Balance Sheet

Property, Plant & Equipment
Heritage Assets
~~Highways Network Asset~~
Investment Property*
Intangible Assets
Assets Held for Sale
Long-term Investments
Investments in Associates and Joint Ventures
Long-term Debtors
Long-term Assets

Investment Properties
(meeting the definition of held for sale)
Short-term Investments
Inventories
Short-term Debtors
Cash and Cash Equivalents
Assets Held for Sale
Current Assets

Bank Overdraft
Short-term Borrowing
Short-term Creditors
Provisions
Liabilities in Disposal Groups
Donated Assets Account
Grants Receipts in Advance (Capital)
Grants Receipts in Advance (Revenue)
Current Liabilities

Long-term Creditors
Provisions
Long-term Borrowing
Other Long-term Liabilities
Donated Assets Account
Grants Receipts in Advance (Capital)
Grants Receipts in Advance (Revenue)
Liabilities in Disposal Groups

Long-term Liabilities
Net Assets
Usable Reserves
Unusable Reserves

Total Reserves

*Including held for sale where the authority has opted to disclose this as a separate category.

Non-current assets are recognised at their cost of acquisition or purchase plus any expenses directly attributable to bringing the asset to the location and condition necessary for them to be capable of operating in the manner intended by management.

Subsequently, property, plant and equipment is recorded on a basis relevant to the individual category of assets (see section 4.1 of the Code):

- cost – infrastructure ~~(except for the Highways Network Asset)~~, community assets (where authorities adopt the cost model) and assets under construction
- current value based on existing use – land and buildings, vehicles, plant, equipment
- assets are normally carried at existing use value as social housing – dwellings
- community assets following the valuation model prescribed for heritage assets (see section O of this Module)
- surplus assets are measured at fair value in accordance with section 2.10 of the Code.

Heritage assets are carried at valuation in accordance with section 4.10 of the Code (see section O of this Module) or in certain circumstances cost.

~~The Highways Network Asset is measured at depreciated replacement cost (see section 4.11 of the Code and section P of this Module).~~

Intangible assets are carried at amortised historical cost (but can be given a fair value in certain circumstances).

Investment properties are recorded at market value.

The recorded value of non-current assets moves as new assets are acquired, existing assets are enhanced and assets are sold or decommissioned.

- Property, plant and equipment – carried at current value are required to be revalued at least every five years.
- Heritage assets – there is no prescribed minimum period, however, the valuations must be reviewed with sufficient frequency to ensure that the valuations remain current.
- Investment properties – fair value should reflect market conditions at the Balance Sheet date.
- ~~Highways Network Asset (depreciated replacement cost is measured in accordance with the methodologies in the Code of Practice on the Highways Network Asset (see paragraph P56 to P59 of this Module for the revaluation period)).~~

All asset categories (other than investment properties and assets held for sale) may be subject to depreciation. Depreciation is not required on heritage assets with indefinite lives.

Where assets are held for sale, they are taken outside the scope of capital accounting and treated more like inventory items.

The balance of usable reserves includes the Capital Receipts Reserve, which accumulates proceeds from non-current asset disposals that have yet to be applied to financing new capital investment.

The balance of unusable reserves includes:

- the Revaluation Reserve – needed to balance the Balance Sheet when assets are revalued
- the Capital Adjustment Account – credited with amounts set aside to finance capital expenditure and absorbs the timing differences that might arise as a result of the setting aside of resources being out of line with accounting charges for depreciation, revaluation and impairment losses, movements in the value of investment properties and the amortisation of intangible assets.

Appendix B

Accounting

Capitalisation

Expenditure on acquisitions and construction work is analysed to decide whether it satisfies the accounting rules for recognising a **non-current asset** in the Balance Sheet. Capitalisation can include subsequent expenditure on existing assets.
The amount capitalised generally comprises the purchase price plus any expenses directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
Assets may also be recognised (at fair value) under leases, PFI contracts and similar agreements.

Module 4 sections B, C, F and G and Module 5 – Assets Under Construction [see also the definition of an asset in Module 2 paragraphs A88–A93]

Registration, Categorisation and Componentisation

The details of assets are recorded in an asset register, divided into components (if any) and given a classification that will determine how they are to be measured in the Balance Sheet and whether they are to be depreciated.
Records are kept of the depreciated historical cost of assets, even if they are to be carried at fair value.

Module 4 sections C, H, I, N, O ~~and P~~ and Update to LAAP Bulletin 86

Valuation

Some classes of **property, plant and equipment** are measured at depreciated historical cost – infrastructure ~~(excluding the Highways Network Asset)~~, community assets and assets under construction.
Other classes of PPE are required to be revalued at least every five years to their current value based on existing use.
Surplus assets are carried at fair value.
~~**The Highways Network Asset** is measured at current value (DRC) and revalued in accordance with the Highways Code.~~
Investment property is measured at fair value.
Intangible assets are revalued if there is an active market for them (otherwise carried at amortised cost).
Assets held for sale are carried at the lower of their carrying amount and fair value less costs to sell.
Heritage assets are given a value, if practicable.
Revaluation changes are managed through use of the Revaluation Reserve, although losses in excess of accumulated revaluation gains are charged to the CIES. Movements in the value of investment properties are posted directly to the CIES.

Module 4 sections C, H, I, N, O ~~and P~~

Depreciation

Depreciation is charged to services based on the **property, plant and equipment** and **heritage assets** that the services use, calculated by spreading the amount at which the assets are carried in the Balance Sheet over their useful life. Charges are not made for land or assets with indefinite lives.
The carrying amount of **intangible assets** is amortised to services over useful lives.
Assets held for sale and **investment properties** are not depreciated.

Module 4 section D

Disposals

Where certain criteria are met, assets are transferred to the **assets held for sale** category and henceforward accounted for as inventory items. Otherwise assets are held in their existing classification until disposed of (including decommissioning).
When assets are sold or decommissioned, the carrying amount is written off to the CIES along with any sale proceeds, giving a gain/loss on disposal.

Module 4 section E

Statement of Accounts

Balance Sheet – significant capital balances

Non-current Assets
Property, Plant and Equipment
Heritage Assets
~~Highways Network Asset~~
Investment Property
Intangible Assets

Current Assets
Assets Held for Sale

Current Liabilities
Grant Receipts in Advance

Usable Reserves
Capital Receipts Reserve
Capital Grants Unapplied

Unusable Reserves
Revaluation Reserve
Capital Adjustment Account

Consolidated Income and Expenditure Statement – significant capital entries

Cost of Services
Depreciation
Revaluation and impairment losses (not covered by accumulated revaluation gains)
Amortisation of Intangible Assets
Revenue Expenditure Funded from Capital Under Statute (REFCUS)

Surplus/Deficit on the Provision of Services
Gains/losses on the disposal of Non-current Assets
Gains/losses relating to Investment Properties
Grants and contributions

Other Comprehensive Income and Expenditure
Revaluation gains and losses (covered by accumulated revaluation gains)

Movement in Reserves Statement – significant capital entries

Adjustments (in the General Fund) between Accounting Basis and Funding Basis under Regulations:

Out
- Depreciation
- Revaluation and impairment losses (not covered by accumulated revaluation gains)
- Amortisation of Intangible Assets
- Written-out assets (part of gains/losses on the disposal of non-current assets)
- Capital receipts (part of gains/losses on the disposal of non-current assets)
- Gains/losses relating to Investment Properties
- Grants and contributions
- REFCUS

In
- Minimum Revenue Provision (MRP E, W & NI) or the Statutory Repayment of Loans Fund Advances (Scotland)
- Direct Revenue Financing

Financing

Revenue Expenditure Financed from Capital Under Statute (REFCUS)

Some payments that would otherwise be revenue expenditure (or not even expenditure at all, such as loans to other parties for capital projects) may, under certain circumstances, be defined as capital expenditure. This allows the expenditure to be financed from capital resources.

Module 4 sections J and K

Capital Financing

Each year authorities are required to total their capital expenditure (capitalised amounts and REFCUS) and determine the extent to which this expenditure is to be financed from capital resources – capital grants and contributions and capital receipts. Any excess serves to increase the **capital financing requirement**. The capital financing requirement records the historical capital expenditure that has been incurred by the authority that has yet to be financed. It represents the underlying need to borrow for capital purposes, although the amount of actual borrowing taken out by an authority will depend on whether it has surpluses of cash arising from revenue balances, unused capital receipts, unapplied capital grants, etc.
The capital financing requirement is reduced by setting aside revenue resources, either by lump-sum set-asides or by the annual charge of **Minimum Revenue Provision** (MRP England and Wales) or the Statutory Repayment of Debt (Scotland). MRP is determined in accordance with statutory requirements and government guidance.

Module 2 section C – Grants and Contributions and CIPFA's *Prudential Code for Capital Finance in Local Authorities*

Accounting v Financing

The differences between capital accounting and capital financing are managed by the use of three reserves.
The **Capital Receipts Reserve** and **Capital Grants Unapplied** hold capital resources that have been recognised as income but not yet applied to capital expenditure.
With the help of adjusting transactions from the Revaluation Reserve, the **Capital Adjustment Account** accumulates (on the debit side) the MiRS reversals for the historical cost of assets as they are depreciated, incur revaluation/impairment losses or are disposed of and (on the credit side) capital receipts, grants and MRP or the Statutory Repayment of Debt set aside to finance capital expenditure.
The Capital Adjustment Account thereby absorbs the differences between the rate at which assets are consumed and the rate at which they are financed.

Module 3 section F – Movement in Reserves Statement and Capital Adjustment Account

This overview does not include HRA transactions.

Measurement Decision for an Item of Property, Plant and Equipment (Paragraph 4.1.2.33 of the Code)